CONNECTICUT CONFERENCE OF MUNICIPALITIES

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TESTIMONY

OF THE

CONNECTICUT CONFERENCE OF MUNICIPALITIES

TO THE

LABOR AND PUBLIC EMPLOYEES COMMITTEE

March 16, 2006

The Connecticut Conference of Municipalities appreciates the opportunity to testify on the following bill of interest to towns and cities:

H.B. 5741 "An Act Concerning the Prevailing Wage Thresholds"

H.B. 5741 would raise the prevailing wage threshold for new construction projects from \$400k to \$1 million, and for renovation projects from \$100k to \$500k. The State's prevailing wage law is an unfunded mandate that costs towns and cities – and the State – hundreds of millions of dollars each year.

H.B. 5741 represents very modest changes that do not go far enough to adequately reform prevailing wage law in Connecticut. It would be more productive of the committee to provide a three-year moratorium on Connecticut prevailing wage law as a means to thoroughly examine this mandate.

Municipal officials want their communities to be places where residents earn a decent living and maintain a high quality of life. They want workers to be paid fair wages. However, the State has imposed a law that requires municipalities — and the State — to pay exorbitant and unnecessary wages to one particular group: construction workers.

These thresholds are unfunded state mandates that require municipalities and the State to pay "prevailing wages" on construction projects over \$400,000 for new work and \$100,000 for renovations. This law does not apply to the private sector.

The law means that state and local projects cannot be bid to obtain the lowest responsible price because all firms that bid on the project must meet a basic wage and benefits package that is set by the State. This package tends to be almost identical to union scale.

Background

The federal Davis-Bacon law, and "little Davis-Bacon" acts passed by states like Connecticut, were enacted during the Depression to protect construction workers from cut-throat competition.

During this time, it was common for unscrupulous contractors to set up shop and compete for federal construction projects. These contractors would often hire unskilled, low-paid workers and underbid local contractors who employed skilled journeyman. This practice further depressed the local economy and lowered the quality of construction on federal projects.

That was in the 1930s and 40s. Now, these laws serve mainly to promote unionism in the construction industry, at the expense of state and local taxpayers. **Since 1979, eight states have repealed their prevailing wage laws, and nine other states have no such law.**

Implications for the State and Municipalities

A 1995 Connecticut Advisory Commission on Intergovernmental Relations study concluded that prevailing wage rates increase construction costs to towns and cities upwards to 21% annually; a 1996 Legislative Program Review and Investigations report pegged the increase in costs caused by the prevailing wage mandate at around 4 to 7%; and the Wharton School of Business has reported the figure to be upwards to 30%. In December 2001, the Kentucky Legislative Research Commission determined that the prevailing wage mandate resulted in a 24% increase in the wage cost of state and local projects.

There is no dispute, however, that the prevailing wage mandate forces municipalities and the State to pay millions of extra dollars a year for public works projects. Precious state and local tax dollars are wasted. Worthy projects such as school construction and highway and bridge repairs are left undone.

The term "prevailing wage rate" is a misnomer. It connotes "average wage rate," which sounds and is reasonable. However, in fact, prevailing wage rates are markedly higher than average wages. For example, the entry level rate for electricians is about the same for the State and the City of Hartford ($18.50 and $18.60, respectively). However, the prevailing wage rate is $29.30, or 58% higher. (Source: Associated Builders and Contractors.)

Under the prevailing wage law, a construction worker could work on a private sector project on one day, then, the next day, literally work across the street on a school building project, and make 30% more.

Fact: **A moratorium will not cause a decline in construction projects**

The state of Michigan suspended its prevailing wage rate law from December 1994 to June 1997. According to a study, "Prevailing Wages: Costs to State and Local Governments", conducted by Frank Gamrat, Ph.D., of the Allegheny Institute for Public Policy, state and local governments in Michigan spent about $2.51 billion in construction projects in FY 1995. The study assumes a 10% increase in construction costs as a result of the prevailing wage law, thereby estimating that Michigan saved $251 million in FY 1995.

From December 1994 to June 1997, the period during which the law was not enforced, 116 new construction jobs emerged from every 1,000 jobs overall, a 48% increase over the 30 month period before Michigan's moratorium.

If Connecticut saved at the same 10% rate as Michigan - using the state bond authorizations for school construction and LoCIP programs as a basis - $61 million would be saved in FY 05-06 and $68 million in FY 06-07 if a moratorium existed during these years (*see attached chart*).

Meaningful Reform:

A three-year moratorium on enforcing the prevailing wage mandate should be enacted in order to provide a time period where, permanent structural reforms can be considered, including increases in the project-cost thresholds as proposed in H.B. 5741.

Savings from prevailing wage rate reform -- even a temporary hiatus -- could be used to finance additional state and local infrastructure programs. Construction workers would benefit from increased work. Taxpayers would benefit from quality work at a lower cost.

Relief from the prevailing wage mandate would allow municipalities and the State to put more resources into much-needed construction projects like school repairs and road maintenance. Such construction could provide a much-needed jolt to the Connecticut economy.

Although H.B. 5741 makes an important stride to reform existing prevailing wage law, **CCM urges the committee to support imposing a three-year moratorium on prevailing wage rate law in Connecticut** as the most prudent public policy means to provide necessary relief to municipalities, while thoroughly addressing this issue.

A moratorium on prevailing wage rate law would allow for:

- The State and municipalities to save millions of dollars during very tough fiscal times.
- Preventing governments to pay upwards to 30% more for construction projects.
- High quality and safety standards to be maintained.
- Savings to be used to fund additional school construction and road and bridges repair.

Sample of Savings in Connecticut:

Below is an example of how much Connecticut towns and cities might save if the prevailing wage rate law was suspended either during FY 05-06 or FY 06-07. Using the Governor's budget revision from February 2006, CCM examined 2 municipal construction-related funding streams: state bond authorizations for school construction and LoCIP for these years.

Program	FY 05-06	FY 06-07
Bond authorization for school construction	$580 million	$650 million
LoCIP	$30 million	$30 million
TOTAL	$610 million	$680 million

Studies on prevailing wage rate law:

- The Wharton School of Business estimates that the prevailing wage rate law costs state and local governments upwards to 30% of construction costs. Accordingly, using the 2 programs as a basis, Connecticut municipalities would save at least $183 million in FY 05-06 and $204 million in FY 06-07 if a moratorium existed during these years.

- The Connecticut Advisory Commission on Intergovernmental Relations estimates that the prevailing wage rate law increases construction costs upwards to 21%. Accordingly, using the 2 programs as a basis, Connecticut municipalities would save at least $128 million in FY 05-06 and $142 million in FY 06-07 if a moratorium existed during these years.

- The Legislative Program Review and Investigations Committee estimates that the prevailing wage rate law increases construction costs by 4-7%. Accordingly, using the 2 programs as a basis, Connecticut municipalities would save at least $33.6 million in FY 05-06 and $37.4 million in FY 06-07 if a moratorium existed during these years (*note: PRI estimated a range of 4-7% project cost increase. For the purposes of this analysis – CCM has taken the midpoint of this range – 5.5%*).

- The Kentucky Legislative Research Commission estimates that the prevailing wage rate law increases construction costs by 24%. Accordingly, using the 2 programs as a basis, Connecticut municipalities would save at least $146 million in FY 05-06 and $163 million in FY 06-07 if a moratorium existed during these years.

Reform of the prevailing wage mandate would provide fiscal relief for the State, local governments and all Connecticut taxpayers.

CCM supports the intent of H.B. 5741 as a step in the right direction to reforming prevailing wage law in Connecticut and alleviating municipalities from the burden of this antiquated law.

However, **CCM urges the committee to enact more meaningful reform**, as practiced in other states, and to **support a three-year moratorium on existing prevailing wage rate law**. A moratorium is the most prudent means of analyzing the appropriateness and impact of this mandate.

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If you have any questions, please call Bob Labanara or Ron Thomas of CCM, at (203) 498-3000.

Attachment(s)

A MORATORIUM ON PREVAILING WAGE:
Estimated Savings in Connecticut - Analysis on Prevailing Wage Findings

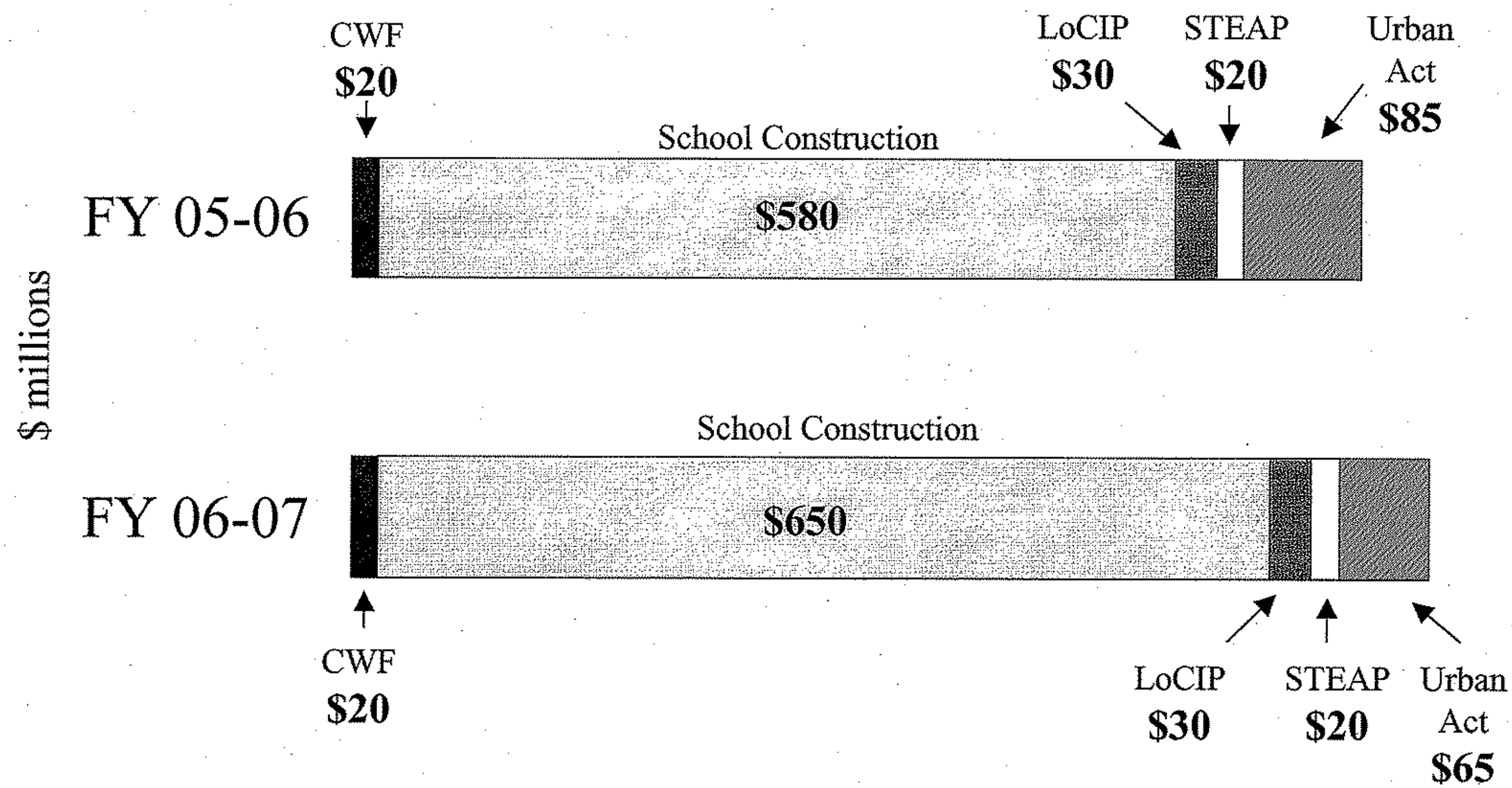
Governor's Budget Revisions - 2/06	FY 05-06 ($ millions)	FY 06-07 ($ millions)
School Construction	$580	$650
LoCIP	$30	$30
Total	$610	$680

		Amount Saved If Moratorium Is Enacted ($ in mllions)					
		School Construction		LoCIP		Total	
Research Reports	**Percentage Saved per Project**	**FY 05-06**	**FY 06-07**	**FY 05-06**	**FY 06-07**	**FY 05-06**	**FY 06-07**
	(%)	($)	($)	($)	($)	($)	($)
CT Reports							
CT ACIR	21.0%	$121.8	$136.5	$6.3	$6.3	$128.1	$142.8
PRI Report	5.5% *	$31.9	$35.8	$1.7	$1.7	$33.6	$37.4
Other Reports							
Kentucky LRC	24.0%	$139.2	$156.0	$7.2	$7.2	$146.4	$163.2
Allegheny Institute	10.0%	$58.0	$65.0	$3.0	$3.0	$61.0	$68.0
Wharton School	30.0%	$174.0	$195.0	$9.0	$9.0	$183.0	$204.0

* PRI report estimated savings between 4% and 7%. For the purposes of this analysis -CCM has taken the midpoint of this range - 5.5%.

OTHER BONDED GRANTS: FY 05-06 COMPARED TO FY 06-07 *

($ figures in millions)



Key:

CWF = Clean Water Fund

LoCIP = Local Capital Improvement Program

STEAP = Small Town Economic Assistance Program

* Includes g.o. bonds only.

Source: Governor's Budget Revisions, February 2006.